

Erode Chapter Seminar-
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COST AUDIT -- PRACTICAL
IMPLICATIONS

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PRACTICING COST ACCOUNTANT

Applicability

- CETA (8-digit code) for FG
- ER-1
- SME
- Exports 75%
- SEZ
- Check and confirm

Board Resolution

- Offer
- Acceptance
- Remuneration (SMF)
- Companies Act Section 148(2),
- MCA notification



CRA-2

23C

- CETA Code
- BR copy attachment
- Consent letter attachment
- Pasting DSC
- SRN
- MCA fees
- acknowledgement
- time limit

planning

- Audit Program, &
- Engagements,
- Team accommodated

Sale of FG

- Varieties of FG with CETA--(8-digit),
- Check CETA with CRA-2
- Expenditure deviation for each product in which audit is required
- FG where No audit, will be kept as other income

Materials

- Consumed Quantity
- Loss
- wastage
- damages
- Average rate (SA..WA, FIFO LIFO)

Utilities

- No Stock---
- all are consumed
- Varieties
- Captive consumption

Value Addition VA-1****

- **VA** == NRO + EI +/- Adjustment in WIP & FG -- Cost of bought out inputs
- **Earnings available for distribution** == VA + O/s + EOI
- **Total Distribution** == Salaries and wages, retirement benefits + share holders dividend + funds retained by company + Government taxes + Extra-ordinary exp + other distribution for earnings

VA-2 Cost of Bought-outInputs

- Cost of Materials consumed (RM, PM, components)
- Cost of process materials/ chemicals (indirect materials consumed for production)
- Cost of Stores spares consumed
- Cost of utilities (purchases and captive consumption)
- Cost of other bought out inputs (telephone, postage, printing stationery, rates and taxes, travelling expenses, rent, insurance freight, outside conversion charges, audit fees, commission charges, brokerage, discount, interest and finance charges)

VA-3

Government taxes

- Both current and deferred, Wealth tax
- Difference between Excise duty paid and Excise duty recovered
- Tax expense of discontinuing operations

VA-4 Extra ordinary expenses

- Exceptional Items
- Extra-ordinary items
- Profit / Loss from discontinuing operations

VA-5 Other distribution of Earnings

- Loss on sale of capital assets and investments
- Loss / gain on forex, Bad debts, Stores / stock written off,
- Demurrage, Fines and penalties to statutory authorities,
- Prior period expenses

Wastage Re-cycling

- Tally quantity of RM—wastage---loss== finished goods
- Watch this process and
- find out the abnormal wastage

Related party

- Purchase of stock
- Sale of stock
- Receiving services,
- rendering services
- Quantity Value (both),
- rate per unit,
- rate for outsider must tally

Indirect taxes*****

- Central excise
- Service tax
- Sales tax (VAT. CST)
- Reconciliation sheet----
- Signed by management

Justification--*****

- **Material** Justification (total cost and cost per unit)
- **Labor** Justification (Total cost and cost per unit)
- **Utility** justification (Total cost and cost per unit)
- **Sales** justification
- (Total sales and sales per unit including profit)

Mandatory records

Maintained by the company

- Stock Statement for Opening stock and closing stock of Raw material Finished goods
- Stock statement for Work-in-process Opening and closing
- (by quantity and cost justification & apportionment thereon)
- Input output stock records like RG-1, Form IV
- Records for UTILITIES production, purchases and consumption quantity, rate, amount
- Gate Pass, Delivery Slip, Purchase order for RM , Customer order for FG,
- Follow ups for internal transfer (Captive)—documents maintained—cost thereon

Expenses not considered for costing

Loss on sale of capital assets and investments

Stamp duty and expenses on issue and transfer of shares

Discounts on bonds and debentures

Fines and penalties to statutory authorities

Loss on Investments

Loss on foreign exchange fluctuations

Premium on forward contracts

Liquidated damages

Demurrage

Bad debts

Donations

Short recovery of excise duty

Write of Preliminary expenses

Exceptional items of expenses as per profit and loss a/c

Prior period expenses

Extra ordinary expenses

Incomes not considered in costing

- Interest received on investments
- Interest on deposits outside the business
- Profit on sale of assets and investments
- Fees received on transfer of shares
- Gain on foreign exchange fluctuations
- Exceptional items of Incomes as per Profit and loss account
- Prior period Income
- Extra—ordinary incomes

Abnormal expenses

- (a)—Cost of abnormal high rejections, defective work, spoilage, wastage etc. arising out of the production process
- (b)—Losses due to theft, pilferage, losses / expenses due to acts of nature like earthquake, flood fire etc.
- (c-)Abnormal idle time cost
- (d)Under absorption of overheads due to under—utilization of capacity
- (e)Losses due to abnormal situations like strikes, war, accidents

Abnormal income

- Abnormal gains
- Unexpected income in the nature of windfall gain

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- Thank You !!!!!
- Query plz.???